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FM AMCONSUL HO CHI MINH CITY
TO RUEHC/SECSTATE WASHDC 3025
INFO RUCNARF/ASEAN REGIONAL FORUM COLLECTIVE
RUEHHM/AMCONSUL HO CHI MINH CITY 3232

UNCLAS SECTION 01 OF 03 HO CHI MINH CITY 000879

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STATE FOR EAP/MLS BLACKSHAW, USTR FOR DBISBEE, H FOR JCHARTRAND

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [OTRA](#) [OVIP](#) [VM](#)

SUBJECT: STAFFDEL GUDES TALKS BUDGETING IN HCMC

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¶1. (SBU) Summary: During an August 14-15 visit to Ho Chi Minh City (HCMC), Senate Budget Committee Minority Staff Director Scott Gudes and Committee Chief Economist Daniel Brandt discussed bilateral relations (touching on U.S. assistance) with the HCMC External Relations Office, U.S. trade and investment with the HCMC American Chamber of Commerce, and municipal funding mechanisms and long-term growth strategies with the HCMC People's Committee and HCMC Institute for Economic Research. Topics discussed ranged from Vietnam's process for meeting WTO commitments to HCMC's new rules for assisting poor residents dislocated by urban renewal projects. The visit yielded a number of insights into HCMC's challenging budgeting process and provided an outstanding peer-to-peer opportunity to share insights. End summary.

American Chamber of Commerce

¶2. (SBU) American Chamber of Commerce (AmCham) Executive Director Herb Cochran began by describing both his organizations membership (400 members: 50 percent U.S. companies, 40 percent multinational and 10 percent Vietnamese) and HCMC's unique economic role in Vietnam. With roughly 7 percent of the population (officially), HCMC accounts for 21 percent of Vietnam's GDP, 30 percent of industrial output, one-third of state budget revenues, 38 percent of exports, two-thirds of international departures, and 70 percent of container traffic.

¶3. (SBU) Asked about AmCham's overall assessment of Vietnam's progress in implementing WTO obligations and the accompanying legal framework, Cochran replied that Vietnam has adopted more than eighty laws and decrees to implement its WTO obligations and has generally followed a very transparent process, actively soliciting industry comment on most draft legislation and then acting upon suggestions offered. Cochran noted, however, that AmCham's members are not happy about all aspects of the WTO accession process and that trading and distribution rights currently top AmCham's action agenda. Cochran noted generally that the GVN has been unclear about how it plans to implement its WTO commitments in this area and that GVN officials argue that rapidly opening up the retail sector to international competition will destroy domestic retail companies. While he highlighted this issue, Cochran also acknowledged that not all U.S. companies retailing in Vietnam have trading/distribution rights problems.

¶4. (SBU) Asked about the challenges facing U.S. firms in Vietnam, Cochran first mentioned corruption. He noted that Korean, Taiwanese, and Japanese companies seem to have fewer problems because the OECD anti-bribery convention they are subject to is not as restrictive as U.S. rules. He added that corruption is not the only way to lock in a role in major

projects, noting that an abundance of official development assistance (ODA) enables the Japanese, in particular, to lock up big infrastructure projects like the planned HCMC subway. The last major challenge Cochran noted originated purely in the USA.

He believes that changes to U.S. tax policy for professionals living overseas (including classifying housing allowances as income) mean that many flagship U.S. companies (e.g., 3M, Proctor and Gamble and IBM) have shifted to non-American managers in Vietnam.

External Relations Office: Role of U.S. Assistance

15. (SBU) External Relations Office (ERO) Deputy Director Le Hung Quoc explained that his office is the foreign affairs advisor to the HCMC People's Committee and the southern branch of the Ministry of Foreign Affairs. The HCMC ERO has two sections and 20 staff working on issues relating to the United States and the U.S. Consulate. StaffDel Gudes described the 1995 normalization debate from the Senate staff perspective, noting the importance that POW/MIA issues played at that time. Quoc replied that now we face more opportunities than challenges, adding that progress in U.S.-Vietnam relations is slower than Vietnam's progress with other countries though we are working hard to narrow the gaps. Quoc also said that the GVN is working to lift the living standard of its citizens, to address rural/urban inequality, and to raise the awareness of overseas Vietnamese about current conditions in Vietnam.

16. (SBU) Quoc said that Vietnam faces human resource and capital constraints. Vietnam receives a lot of aid, including from the United States, with the Vietnam Education Foundation (VEF) and Fulbright programs helping Vietnam develop human resources and the Support for Trade Acceleration (STAR) program helping Vietnam to play by the rules of the WTO. He added that the President's Emergency Plan for AIDS Relief (PEPFAR) also addresses critical needs in Vietnam. Gudes agreed that Vietnam needs to address human resources problems, noting that when he ran the National Oceanic and Atmospheric Agency (NOAA) human resources were also his priority.

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People's Council - Paying for the Future

17. (SBU) StaffDel called on Budget Sub-Committee of the People's Council of HCMC Vice Chairman Nguyen Minh Hoang, who explained that the sub-committee advises the People's Council on development and infrastructure issues. Hoang noted that HCMC is growing faster than the rest of Vietnam. He estimated 12.5 percent in 2007, as opposed to 8.5 percent for the country as a whole. Hoang stated that this is in no small part because public administration reforms are going well in HCMC.

18. (SBU) Hoang said HCMC is reviewing and adjusting its urban planning-land zoning approach (originally drafted in 1998) and recently produced a report on urban development plans through year 2020. The GVN and HCMC governments are reviewing compensation rates for land and developing new support mechanisms (e.g., vocational training) to assist low-income residents displaced by urban redevelopment projects. Hoang said public health care, education and training, urban traffic systems and environmental protection are also big challenges, adding that increased cooperation and investment would be welcome in any of these.

19. (SBU) Hoang outlined HCMC's budget development process, saying HCMC will collect 78,000 billion VND (\$4.8 billion USD) in tax revenue this year, which is more than 30 percent of the official State budget. The central government is placing an increasing tax burden on HCMC because it is the nation's wealthiest city and the primary engine of Vietnam's economic growth. While the city government is responsible for collecting tax funds, it is allowed to retain only 26 percent of the revenue for the HCMC budget. Hoang said the budget process starts in August when The People's Council develops a draft city budget based on its own internal review as well as negotiations

with the Ministry of Finance and National Assembly. In practice, most details are worked out with Ministries before the budget reaches the National Assembly, whose main role is to adjust provincial/municipal budgets to reflect national development priorities.

¶10. (SBU) Hoang noted that HCMC has 2 million unofficial migrants and asked Gudes for advice in addressing public health, sanitation, education and public transport needs of these unofficial residents. Gudes responded that a combination of Federal, State and Local government programs and approaches help the United States address both national disasters and the stress that migration puts on local systems.

Institute for Economic Research

¶11. (SBU) StaffDel Gudes met with HCMC Institute for Economic Research (IER) President Tran Du Lich, a National Assembly (NA) member and member of the NA Committee for Economic Affairs. Senior Economist Brandt suggested leveraging Vietnam's high domestic savings rate for development through domestic savings bonds. Lich agreed, stating that HCMC began issuing domestic savings bonds in 2003. The city currently has 8,000 billion VND (USD \$500 million) in mid- and long-term bonds outstanding. Of those, 80 percent are held by institutions and 20 percent by individuals. He added that a central government cap on international bond issuances by HCMC means that the city can't rely on overseas financing for infrastructure projects.

¶12. (SBU) When Gudes asked Lich about the National Assembly's budget oversight role, Lich described the operation of Vietnam's system of maintaining a single, central budget. The overall budget process starts with budget data (both projected revenues and projected expenditures) collected from provinces and is negotiated with the Ministry of Finance (MOF) before being forwarded to the National Assembly (NA) for final action and approval. In the end, the budget for each of the 64 provincial and municipal governments is allocated by the central government back to the provinces from whence it came. When negotiating its own budget contributions, the HCMC People's Committee negotiates with the Ministry of Finance (MOF) on such key variables as GDP growth and estimates of revenue (e.g., import taxes, income taxes, and property taxes) to be collected by the municipality. Once negotiations with MOF are finished, the budget data goes to the Budget Committee of the NA. Most changes are implemented by the committee before the budget is forwarded to the entire NA for approval. In general, the NA changes only those funding requests affecting national priorities. Once the process is finished and total expenditures for a province/municipality are allocated by the central government, the provincial governments decide how to spend funds according to MOF regulations governing expenditures (e.g., civil service salaries generally follow an MOF schedule).

¶13. (SBU) Lich said for 2006 and 2007 HCMC expenditures as a

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percentage of total revenue collected was set at 26 percent, so that for every \$100 of revenue collected, \$74 goes to other provinces. He noted that HCMC is allowed broader authority than many other provinces. For example, the city can borrow up to 100 percent of the value of its annual budget investment capital while other provinces are capped at 30 percent. HCMC has also been the beneficiary of ODA (e.g., \$1 billion USD for a Japanese-built highway or \$20 million USD for World Bank community water projects) that provides investment funds over and above those included in its annual budget.

¶14. (SBU) Lich said that over the course of the budget process, the people of HCMC have various opportunities to learn about the budget. They also have opportunities to comment on the budget when the HCMC People's Council debates it. Lich said rural constituents typically lambaste the People's Council for neglecting rural roads and city dwellers criticize the Council for not spending enough money on city services such as education.

Comment

¶15. (SBU) StaffDel Gudes provided an outstanding peer-to-peer opportunity to better understand the HCMC municipal budgeting process. Chief economist Brandt observed that HCMC's disproportionate contribution to Vietnam's State budget may yet constitute a catalyst for political change. There are only 23 HCMC representatives on the 498 person National Assembly yet HCMC accounts for over 30 percent of State revenues. The widening economic gap between HCMC and other provinces may provide additional impetus for future political change as other provinces seek to mimic the city's formula for success.

This cable was coordinated with Embassy Hanoi and StaffDel was given an opportunity to comment. End Comment.
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